

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

***Request to Approve Issuance of Tax-Exempt Bonds and Transfer Industrial Development
Bond (IDB) Allocation***

**Vintage Wine Estates, Inc.
Application No. 12-0002**

August 21, 2012

SUMMARY

Borrower/Project Sponsor and User – Vintage Wine Estates, Inc. and/or a related entity

Issuer – California Municipal Finance Authority (CMFA)

Location – Unincorporated Community of Hopland, Mendocino County

Requested IDB Allocation – \$7,700,000

Public Benefit Points Awarded – 60 points out of 147 possible

Staff Recommendation – Approval

THE COMPANY

Vintage Wine Estates, Inc. (the Company or the Borrower/User) was incorporated in California on March 29, 2007. The Company is a wine marketing company based in Santa Rosa and makes wine at several of its production facilities including Girard Winery, Windsor Sonoma Winery, Sonoma Coast Vineyards, Windsor Vineyards, Cartledge & Browne, Grove Street Winery, and Cosentino Winery.

The Company manufactures its product for retailers, marketing companies, and wholesalers including Costco, Trader Joes, WJ Deutsch, and Southern Wine and Spirits.

THE PROJECT

On July 2, 2012, Vintage Wine Estates, Inc. purchased the former McDowell Valley Winery facility in Hopland, which includes three existing buildings totaling 40,025 square feet and 24 acres of vineyards. Bond proceeds will be used to reimburse the Company for the cost of the land and existing buildings. In addition, bond proceeds will be used for the renovation and expansion (from 1,000 square feet to 5,000 square feet) of an existing wine bottling room, the acquisition

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and installation of new bottling line equipment, and the acquisition and installation of used winery-related equipment such as tanks, pumps, hoses and presses.¹

Anticipated Project and Issuance Costs

	To be paid from <u>bond proceeds</u>	To be paid from <u>all other sources</u>
Acquisition of Land	\$ 90,000	\$1,177,000
Acquisition of Existing Building	3,900,000	
Rehabilitation of Existing Building	1,572,940	
Acquisition of Used Equipment	967,160	2,582,840
Acquisition of New Equipment	1,036,886	
Bond Issuance Expenses	<u>133,014</u>	<u>0</u>
Totals	<u>\$7,700,000</u>	<u>\$3,759,840</u>

Timeline

The purchase of the land and building was completed on July 25, 2012. The construction and renovation work on the existing building and the acquisition and installation of equipment are scheduled to commence in January 2013 and will be completed by August 2013.

Financing Details

The tax-exempt IDBs will be sold on a private placement basis to GE Government Finance Inc. (GEGF). GEGF, which is a qualified institutional buyer (QIB) as defined by the U.S. Securities and Exchange Commission (SEC) Rule 144A, will purchase the bond for its own investment portfolio. The bonds will be secured by the land, buildings, and equipment.

¹According to bond counsel, IDBs can finance "used" facilities provided that the applicable "rehab rule" under federal tax law is followed. The first rehab rule is that if the used facility is a building or other structure, the borrower must make rehabilitation expenditures of at least 15% of the amount of bond proceeds used to acquire the building. The rehabilitation expenditures can come from bond proceeds or any other source and must be made within two years.

The second rule is that, if the used facility is equipment, then the borrower must make rehabilitation expenditures of at least 100% of the amount of bond proceeds used to acquire the equipment. Qualifying rehab expenditures for equipment consist of either repairing, refurbishing or replacing the equipment, can be funded from any source (bond proceeds or other funds), and must be made within two years.

The third rule is that if a building and equipment are part of an "integrated" facility (such as a situation where the building or the equipment was designed for the other), the rehab expenditure requirement is 15% of the amount of bond proceeds.

In the case of the Vintage Wine Estates, Inc. project, the bond proceeds are being used to acquire an integrated facility (buildings plus equipment that are part of an integrated facility), so the 15% rule applies. The borrower will satisfy the 15% rule by replacing some equipment and by doing some building rehab over the next two years.

The bonds will be issued in accordance with CIDFAC's private placement policy, which has the following requirements:

- The bond purchaser must be a sophisticated investor as defined under SEC Rule 144A.
- The sophisticated investor must sign a "traveling" sophisticated investor letter, which will outline the requirements and restrictions related to sophisticated investors and will follow the bonds in the event the bonds are re-sold or traded at a later date.
- The security for the private placement debt must be collateral provided by the Borrower.
- The bonds will be issued in minimum denominations of \$250,000.

Financing Team

- Issuer: CMFA
- Private Placement Provider: GE Government Finance, Inc.
- Bond Counsel: Jones Hall
- Escrow Agent: Marshall & Ilsley

PROJECT EVALUATION

PUBLIC BENEFITS: The Project received 60 points out of a possible 147 pursuant to the California Debt Limit Allocation Committee (CDLAC) scoring system for IDB Projects. The award of points is detailed below:

A. Community Economic Need (10 of 25 points).

1. Unemployment Rate of the Project Area (0 of 10 points). In accordance with CDLAC Regulations, points are awarded in this category if the 2011 unemployment rate of the county sub-area in which the Project is located is at least 125 percent of the 2011 statewide rate. The unemployment rate of this Project area is 94 percent of the statewide rate. Therefore, the Project received no points in this subcategory.

2. Poverty Rate of Project Area (5 of 5 points). In accordance with CDLAC Regulations, the most recent data from the U.S. Bureau of the Census, which in this case is Census 2010 data, is used to determine if the Project qualifies for points in this category. Points are awarded in this category if the poverty rate is at least 110 percent or more of the statewide rate. The poverty rate for this Project area is 17.8 percent, which is 130 percent of the Census 2010 statewide rate of 13.7 percent. Therefore, the Project received five points in this subcategory.

3. Special Designation Area (0 of 5 points). The Project is not located in a special designation area.

4. Median Family Income (5 of 5 points). In accordance with CDLAC Regulations, the most recent data from the U.S. Bureau of the Census, which in this case is from Census 2010, is used to determine if the Project qualifies for points in this category. Points are awarded if the Project is located in an area with a median family income of less than 80 percent of the statewide average. The Project is located in the community of Hopland where the average median family income is \$44,717. The median family income for the State of California is \$69,322. So, the median family income for the Project area is 65 percent of the statewide average. Therefore, the Project received 5 points in this subcategory.

B. Job Creation (35 of 35 points). Points are awarded in this category based on the borrower and/or user's representation that it will use its best efforts to increase the number of direct, full-time employees at the Project site within two years of Project completion. The company represents that it currently employs 11 direct, full-time employees at the Project site. The company represents that it anticipates hiring an additional 7 direct, full-time employees, which equates to a 63 percent increase, within two years of completion of the Project.

C. Job Retention (0 of 10 points). Points are awarded in this category based on the Borrower's or User's representation that it has considered moving operations out of state. There was no such representation in the application materials received, and therefore the Project received no points in this category.

D. Average Hourly Wage (10 of 10 points). In accordance with CDLAC Regulations, the most recent data from the Bureau of Labor Statistics, which in this case is May 2011, is used to determine if the Project qualifies for points in this category. Points are awarded if the company's average hourly wage is at least 105 percent of the nearest Metropolitan Statistical Area (MSA) average hourly wage. The company's average hourly wage is \$21.36, while the MSA for the North Coast Region area had an average 2011 manufacturing wage of \$16.57. Therefore, the company's average hourly wage is 129 percent of the average manufacturing wage for the North Coast Region area.

E. Workforce and Economic Development (0 of 15 points).

1. Welfare-to-Work Plan (0 of 5 points). The Company did not provide any information indicating participation in a welfare-to-work program.

2. Workforce Training (0 of 5 points). The Company did not provide information indicating participation in a workforce training program.

3. Exports Outside California (0 of 5 points). The Company did not provide information indicating that they export products outside of California.

F. Health Care Benefits (0 of 15 points). The Company indicated that it contributes to medical, dental and vision insurance for its employees, but the documentation of the benefits was not sufficient according to the CDLAC Regulations.

G. Payment of Retirement Benefits (0 of 5 points). The Company did not provide information indicating the contribution to payment of retirement benefits for its employees.

H. Environmental Stewardship (0 of 27 points).

1. Land Use (0 of 3 points). This Project does not involve the reuse of vacant or abandoned land or buildings.

2. Public Transit Corridor (0 of 4 points). The Company did not provide verification that the Project site is located within a public transit corridor.

3. Energy Efficiency and Renewable Energy (0 of 15 points). The Company did not provide information regarding the Project's energy efficiency.

4. Manufacturer of Certified Environmentally Preferable Products (0 of 5 points). The Company did not provide information indicating that the Project produces or will produce environmentally preferable products.

I. Leveraging (5 of 5 points). The total Project cost is \$11,459,840. The Company will borrow \$7.7 million of the Project costs in the form of tax-exempt IDB financing, which will cover approximately 67% of the Project costs. The remaining 33% of Project costs will be covered by the Borrower's equity or other funds. In accordance with CDLAC Regulations, points are awarded in this category if the taxable debt of the project is 10% or greater of the bond amount. Therefore, five points were awarded in this category.

RELOCATION OF COMPANY OPERATIONS

This Project does not involve a relocation. The winery in Hopland will be used to support the Company's expansion in Mendocino County.

QUALIFICATION OF BOND ISSUANCE

Based on the proposed financial structure, and the application and other materials submitted to CIDFAC for this Project, staff believes the bonds (a) will be adequately secured; (b) will be fair, just and equitable to a purchaser of the bonds; and (c) will not defraud the bond purchaser. Final determination of qualification of the bonds will be subject to staff's review of final bond documents prior to the issuance of the bonds.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

- The CMFA approved the Inducement Resolution in an aggregate amount not to exceed \$10,000,000 in tax-exempt IDBs for the Project on June 8, 2012. CMFA is scheduled to adopt a final resolution for the Project on August 31, 2012.

- The TEFRA notice was published at least 14 days prior to July 24, 2012, specifically on July 10, 2012, in the Ukiah Daily Journal, a newspaper of general circulation within Mendocino County. A TEFRA hearing was held by the Mendocino County Board of Supervisors on July 24, 2012.
- The Project site is zoned AG-40 by the County of Mendocino Planning Department. This zoning designation requires a 40-acre minimum parcel size. The purpose of this zoning designation is to preserve, protect, and enhance grazing and farming. According to the documents submitted with the application, a winery and related operations (as well as weddings, corporate events, and other special events under certain restrictions) are permitted under the County's AG-40 zoning. Therefore, the Company's operations do not require additional land use or zoning approvals or permits to accommodate this Project.

LEGAL QUESTIONNAIRE

Staff reviewed the Borrower's/User's responses to the questions contained in the Legal Status portion of the application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of the company.

PRIOR ACTIONS AND FINANCINGS

None.

CIDFAC FEES

In accordance with CIDFAC regulations, the Company has paid CIDFAC an application fee of \$1,250 ² and will pay a closing fee of up to \$19,250.

RECOMMENDATION

Staff recommends approval of Initial and Final Resolution No. 12-0002 for \$7,700,000 in tax-exempt bonds and Allocation Resolution No. 12-002-002 for \$7,700,000 in tax-exempt IDB allocation for the CMFA for the Vintage Wine Estates, Inc. Project. Staff's recommendation is subject to staff analysis and approval of final bond documents and receipt of bond counsel's opinion as set forth in Initial and Final Resolution No.12-0002.

Staff report by: Deanna Hamelin

² California Code of Regulations Title 10, Chapter 8, Article 3, §6070

**INITIAL AND FINAL RESOLUTION OF THE
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION (CIDFAC)
INDUSTRIAL DEVELOPMENT BONDS
IR/FR #: 12-0002**

WHEREAS, the California Municipal Finance Authority (the “Applicant”) has transmitted the application of Vintage Wine Estates, Inc. (the “Project Sponsor”) for the issuance of \$7,700,000 in tax-exempt bonds under the provisions of the California Industrial Development Financing Act, and has transmitted said application to the California Industrial Development Financing Advisory Commission (the “Commission”) and the information necessary to permit review of said application by the Commission, and has informed the Commission that it has adopted a resolution declaring its intention to issue such bonds and that the County of Mendocino held a public hearing regarding the issuance of the bonds and has approved the issuance of the bonds by the Applicant; and

WHEREAS, the Commission has reviewed the application and the materials submitted with the application.

NOW, THEREFORE, the Commission resolves as follows;

Section 1. The Commission, based on its review of the application and the information submitted therewith, does determine that:

(a) the public benefits described in the application likely will substantially exceed any public detriment from the issuance of the bonds in the total principal amount of \$7,700,000; and

Section 2. The Commission conditionally finds that the proposed issuance of the bonds qualifies under the provisions of Article 5 of Title 10 of the Government Code, and further finds that:

(a) the bonds will be adequately secured and the funds available to the Applicant will be sufficient to pay the principal of and interest on the bonds to be issued; and

(b) based on its review of the preliminary material submitted to it and as provided for under Government Code Section 91571, the proposed issuance will be fair, just and equitable to a purchaser of the bonds, and that the bonds proposed to be issued and the methods to be used by the Authority in issuing them will not be such as will work a fraud upon the purchaser thereof.

Section 3. The Commission determines that it is appropriate to the proposed transaction that the qualification of the proposed issuance be subject to the following conditions:

(a) the Bond Counsel Opinion, when ready for execution, shall be submitted to Commission staff;

(b) the final legal documents, when ready for execution, shall be submitted to Commission staff for its review. Submitted documents shall include:

- (i) Loan Agreement,
- (ii) Tax Certificate and Agreement,
- (iii) Escrow Agreement, and;
- (iii) Other documents which, in the opinion of Commission staff, are necessary to the review of the transaction;

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(c) the Commission staff shall determine that the final documents associated with the transaction have been developed in form and content substantially similar to the representations in the application on which are based the findings under Section 2. above;

(d) the bonds, when issued, are within the maximum limitation of bonds authorized in the California Industrial Development Financing Act (Section 91573(a) of California Government Code);

(e) the Commission shall receive all applicable fees prior to the issuance of the bonds, unless the bond documents indicate that such fees are to be paid from the proceeds of the bonds; and

(f) the Project Sponsor agrees to comply with Section 91533(l) of the Government Code relating to the payment of prevailing wages.

Section 4. This Resolution shall cease to be effective if the above-described bonds have not been issued within six months after the date of adoption of this Resolution.

Section 5. In compliance with the provision of the California Industrial Development Financing Act (Section 91754 California Government Code), the qualification of the proposed bond issue by this resolution is permissive only, and does not constitute a recommendation or endorsement of the bonds so qualified by the Commission.

**THE CALIFORNIA INDUSTRIAL DEVELOPMENT
FINANCING ADVISORY COMMISSION
RESOLUTION NO. 12-002-002
RESOLUTION TRANSFERRING A PORTION OF THE 2012 STATE CEILING
FOR QUALIFIED PRIVATE ACTIVITY BONDS FOR A
SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT**

WHEREAS, the California Debt Limit Allocation Committee (“CDLAC”) awarded allocation to the California Industrial Development Financing Advisory Commission (the “Commission”) for the purpose of awarding a portion of the allocation to local and State issuers; and

WHEREAS, the Commission has the authority to transfer a portion of its allocation to local and State issuers; and

WHEREAS, the Commission has received an application (“Application”) from the California Municipal Finance Authority (“Applicant”) requesting a transfer to the Applicant of a portion of the 2012 State Ceiling on Qualified Private Activity Bonds (the “State Ceiling”) under Section 146 of the Internal Revenue Code of 1986, as amended, for use by the Applicant to issue bonds or other obligations (“Bonds”) for a Project as specifically described in Exhibit A (“Project”) (capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Procedures of the CDLAC Implementing the Allocation of the State Ceiling on Qualified Private Activity Bonds (“CDLAC’s Procedures”)); and

WHEREAS, the Project Sponsor (as defined in Exhibit A) has represented certain facts and information concerning the Project in the Application, which the Applicant has confirmed; and

WHEREAS, in evaluating the Project and potential allocation of a portion of the State Ceiling to the Applicant for the benefit of the Project, the Commission has relied upon the

written facts and information provided in the Application and otherwise by the Project Sponsor and the Applicant; and

WHEREAS, it is appropriate for the Commission to approve a transfer of a portion of the State Ceiling (“Allocation”) in order to benefit the Project described in the Application.

NOW, THEREFORE, the California Industrial Development Financing Advisory Commission resolves as follows:

Section 1. An amount of the State Ceiling equal to \$7,700,000 shall be deemed to be transferred by the Commission to the Applicant. Such Allocation may be used only by the Applicant and only for the issuance of Bonds for the Project, as specifically described in Exhibit A. All of the terms and conditions of Exhibit A are incorporated as though fully set forth herein (this resolution, together with Exhibit A, hereinafter referred to as the “Resolution”).

Section 2. The terms and conditions of this Resolution shall be incorporated in appropriate documents relating to the Bonds, and the Project Sponsor, the Applicant and their respective successors and assigns will be bound by such terms and conditions.

Section 3. Any modification to the Project made prior to the issuance of the Bonds must be reported to the Executive Director and, if the Executive Director determines such modification to be material in light of the Commission’s Procedures, such modification shall require reconsideration by the Commission before the Allocation may be used for the Project. Once the Bonds are issued, the terms and conditions set forth in this Resolution shall be enforceable by the Commission through an action for specific performance or any other available remedy, provided however, that the Commission agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. The

Commission may, as circumstances warrant, consent to changes in the terms and conditions set forth in this Resolution in the event the Commission is advised of changes in the Project.

Section 4. Prior to the issuance of the Bonds, any material changes in the structure of the credit enhancement and not previously approved by the Commission shall require approval of the Commission Chair or the Executive Director.

Section 5. The Applicant is not authorized to use the Allocation transferred hereby to make a carryforward election with respect to the Project. The Applicant is not authorized to transfer the Allocation to any governmental unit in the State other than this Commission.

Section 6. The Allocation transferred herein shall automatically revert to this Commission unless the Applicant has issued Bonds for the Project by the close of business within 90 days of the award of Allocation. In the case of extreme hardship, the Executive Director may extend this date by up to five (5) business days.

Section 7. Within twenty-four (24) hours of using the Allocation to issue the Bonds, the Applicant shall notify the Commission's staff and CDLAC's staff in writing (which may be by electronic or facsimile communication) that the Allocation has been used. Each notification to the Commission and to CDLAC shall identify the Applicant, the Project or program, the date the Allocation was used, and the amount of the Allocation used.

Section 8. Within fifteen (15) calendar days of the issuance of the Bonds, the Applicant or its counsel shall formally transmit to CDLAC information regarding the issuance of the Bonds by submitting, in a form prescribed by and made available by CDLAC, a completed Report of Action Taken.

Section 9. Any differences between the amount of Bonds issued and the amount of the Allocation granted in Section 1 of this Resolution shall automatically revert to the

Commission. If at any time prior to the expiration date set forth in Section 6 of this Resolution the Applicant determines that part or all of the Allocation will not be used to issue Bonds by that date, the Applicant shall take prompt action by resolution of its governing board or by action of its authorized officer to return such unused Allocation to the Commission.

Section 10. The staff of the Commission is authorized and directed to transmit a copy of this Resolution to the Applicant together with a request that the Applicant retain, for the term of the Bonds, a copy of this Resolution in the Applicant's official records. The Commission staff is further directed to retain a copy of this Resolution in the files of the Commission (or any successor thereto) for the same period of time.

Section 11. The Applicant and the Project Sponsor shall comply with all of the terms and conditions contained in this Resolution and ensure that these terms and conditions are included in the documents related to the Bonds. Further, the Applicant and the Project Sponsor expressly agree that the terms and conditions of this Resolution may be enforced by the Commission through an action for specific performance or any other available remedy, provided however, that the Commission expressly agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. In addition, the Applicant and the Project Sponsor shall ensure that the Bond documents, as appropriate, expressly provide that the Commission is a third party beneficiary of the terms and conditions set forth in this Resolution.

Section 12. The Project Sponsor or its successor-in-interest shall provide certifications of compliance with the terms and conditions set forth in this Resolution when reasonably requested by the Commission.

Section 13. This Resolution shall take effect upon its adoption.

EXHIBIT A

**RESOLUTION NO: 12-002-002
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)**

1. Applicant: California Municipal Finance Authority (CMFA)
2. Application No.: 12-0002
3. Borrower, Project Sponsor and User: Vintage Wine Estates, Inc.
and/or a related entity
4. Project Name: Vintage Wine Estates, Inc. Project
5. Project Description: Acquisition of Land and Existing Building, Rehabilitation of Existing Building, and the Acquisition and Installation of New and Used Equipment
6. Address: 13300 Buckman Drive
Location: Hopland, CA 95449
County: Mendocino County
7. Amount of Allocation: \$7,700,000
8. The Borrower has represented that it reasonably expects to use its best efforts to achieve the following within two years of the completion of the Project :
 - Creation of 7 additional direct, full-time positions.